OLD MUTUAL SMOOTHED BONUS FUNDS

PIONEERING SMOOTH INVESTMENT JOURNEYS FOR OVER HALF A CENTURY

2019 QUARTERLY REPORT Q1

CORPORATE

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CONTENTS

PRODUCT UPDATE

Abulela Gazi, FASSA

Head of Smoothed Bonus Funds, Guaranteed Solutions

TOTAL INVESTMENT CHARGE (TIC) & OTHER FEES RELATING TO SMOOTHED BONUS INVESTMENTS

Total Expense Ratio (TER) is the global standard used to measure the impact that the deduction of management and operating costs has on a fund's investment value. It gives investors an indication of the effects these costs have on the future growth of their investment portfolio. Expressed as a percentage, a fund's TER is calculated over a rolling three-year period (or since inception where applicable) and annualised to the most recent quarter-end. A higher TER does not necessarily imply a poor return, nor does a low TER imply a good return. The current TER may not necessarily be an accurate indication of future TERs. As a result, when comparing investment portfolios, we encourage investors to not only look at cost but also returns and other benefits the investment portfolio they invest in provide.

EXPENSES INCLUDED IN THE TER

The costs that comprise the TER include expenses that an asset manager may not be able to quantify upfront as they depend on specific or variable circumstances.

The TER is an annualised value and includes:

- Annual service fee
- Fund's bank charges
- Fund's audit fees
- Taxes (e.g. stamp duty, VAT)
- Custodian and trustee fees (custodians and trustees are appointed to protect the interests of the unitholders, and the fees pay for their services)
- Costs related to scrip lending
- Performance fees

Performance fees are a form of fund management fees expressed in variable terms and are earned by asset managers when they generate positive returns in excess of some predefined hurdle rate. This variable charging structure aligns the interests of the investor and the asset management company. As TERs are calculated over rolling 36-month periods, the TER calculated in 2018 will include an annualised average of the performance fees earned during 2016, 2017 and 2018.

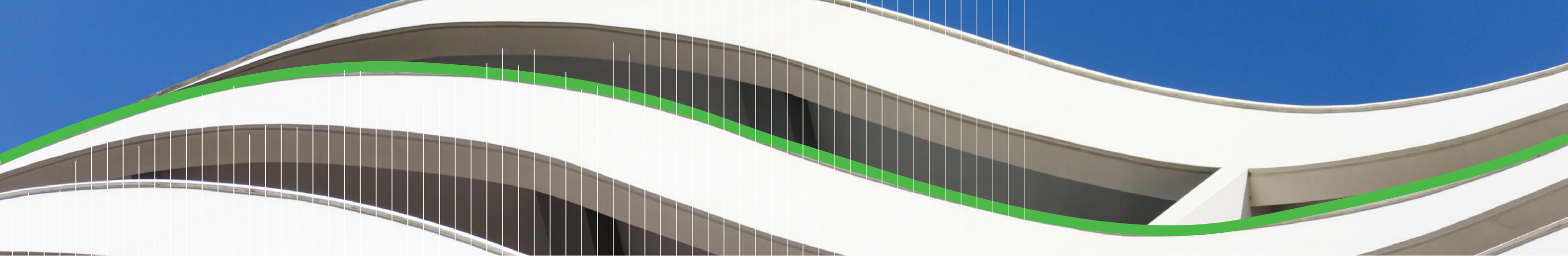
Prior to 2016, TERs were calculated over rolling 12-month periods, which would include performance fees for the same rolling 12 months. The new industry standard of calculating TERs over rolling 36-month periods may cause the TER to appear higher or lower than before depending on historical fees charged.

EXPENSES NOT INCLUDED IN THE TER

Charges not included are generally of a once-off nature, and are deducted from the investment at the outset or on an ongoing basis where applicable:

- Initial charges (including commission) – deducted from the investment amount prior to units being bought
- Annual adviser fees agreed upon between the adviser and the client – this cost agreed between client and adviser is deducted monthly through the sale of units
- Stockbroker fees – this is a portfolio fee and covers the trading costs incurred when buying and selling securities
- Expenses related to the settling of transactions and taxes associated with these (e.g. securities transfer tax)
- Scrip lending fees earned may not be offset against expenses
- Capital charges – deducted from bonuses declared to achieve smoothing prior to the unit price increase

Part of this article was sourced from Old Mutual Unit Trust Managers (RF) (Pty) Ltd (OMUT).



TRANSACTION COST (TC)

TC is a necessary cost in administering the fund and impacts fund returns. It should not be considered in isolation as returns may be impacted by many other factors over time including market returns, the type of fund, the investment decisions of the investment manager and the TER. Calculations are based on actual data where possible and best estimates where actual data is not available.

Transaction costs include:

- VAT
- Brokerage
- Securities transfer tax (STT)
- Investor protection levy
- STRATE contract fees
- Exchange rate costs
- Bond spread costs
- Fees associated with contracts for difference (CFDs)

The Total Investment Charge is the sum of the Total Expense Ratio (TER) and the Transaction Cost (TC).

WHAT IS THE TIC ON OLD MUTUAL SMOOTHED BONUS FUNDS?

The tables below show the build up of the Total Investment Charge (TIC), as well as the subsequent inclusion of the capital charge for the **Absolute Growth Portfolio & CoreGrowth**.

The figures quoted below are as at December 2018:

Absolute Growth Portfolio

Investment Management Fee (IMF)[1]	0.675% p.a.
Performance Fee[2]	0.012% p.a.
Other Fees[3]	0.002% p.a.
Total Expense Ratio (TER)	**0.689% p.a.**
Transaction Cost (TC)[4]	0.059% p.a.
Total Investment Charge (TIC)	**0.748% p.a.**
Capital Charge[5]	0.20% p.a.
Total Investment Charge (TIC), including Capital Charge	**0.948% p.a.**

CoreGrowth

Investment Management Fee (IMF)[1]	0.400% p.a.
Performance Fee[2]	0.010% p.a.
Other Fees[3]	0.002% p.a.
Total Expense Ratio (TER)	**0.412% p.a.**
Transaction Costs (TC)[4]	0.038% p.a.
Total Investment Charge (TIC)	**0.450% p.a.**
Capital Charge[5]	0.80% p.a.
Total Investment Charge (TIC), including Capital Charge	**1.250% p.a.**

[1] The investment management fee was based on AUM of R200 million.

[2] Performance fees are charged on alternative assets and assets held with external asset managers outside of the Old Mutual Group.

[3] Other fees include items such as bank fees, custody fees, audit fees, scrip lending fees, etc.

[4] Transaction costs are costs incurred in the buying and selling of a product's underlying assets.

[5] Capital Charge based on AGP Smooth & CoreGrowth 90. This capital charge cost will change dependent on the product selected. However the build-up of the TER and TIC is the same across product categories

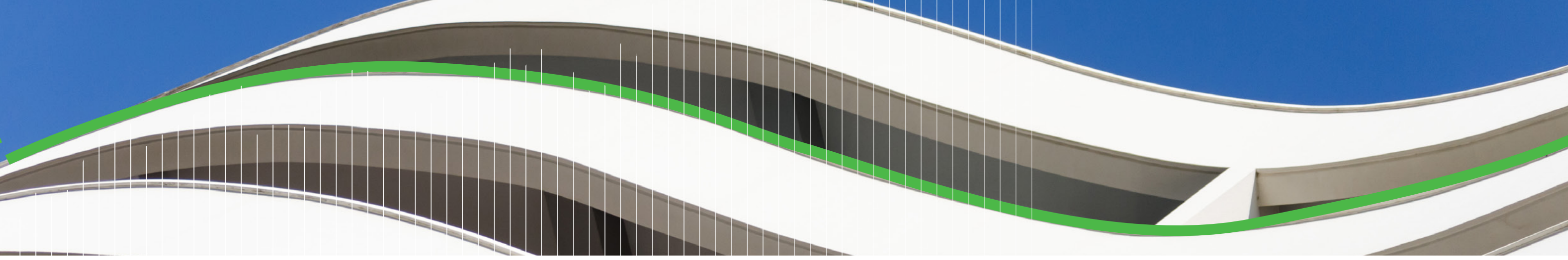
As per ASISA guidelines, the TER/TIC numbers quoted above are calculated over a rolling three-year period, annualised, disclosed quarterly.

TICs will be provided on a quarterly basis and will form part of the quarterly report going forward.

WHAT THE CAPITAL CHARGE COVERS

When an insurance company offers guarantees on its funds, it has to set aside capital in order to be able to honour the guarantee in the event that the guarantee comes into effect (also referred to as the guarantee biting). Regulation requires that Old Mutual hold capital reserves in respect of the guarantees offered for each smoothed bonus fund. Capital charges are in respect of the cost of the capital Old Mutual is required to hold.

A higher guarantee level means a higher capital charge is levied because there is a bigger chance of the guarantee biting, and therefore requires more capital being set aside.



Capital charges differ by guarantee level for the same underlying asset allocation. For example, the capital charge for Absolute Smooth Growth's 50% guarantee is only 0.2%, while the capital charge for Absolute Stable Growth's 80% guarantee is 0.7%.

The level of the capital charge is also affected by the underlying asset allocation to growth assets. Growth assets are generally more volatile and therefore increase the likelihood that the value of the assets will fall and that the guarantee comes into effect. As a result, the capital charge is higher if the allocation to growth assets is higher. Since AGP has a higher allocation to growth assets compared to CoreGrowth, AGP Secure's 100% guarantee has a higher capital charge of 2.7%, while the capital charge for CoreGrowth 100's 100% guarantee is lower at 1.8%.

It is important to note that the capital charge provides security against adverse market movements, therefore protecting investors' interests in adverse circumstances. This allows investors to sleep well at night knowing that their investment will never fall below a certain point at the times they need it the most, that being at retirement, retrenchment, resignation, death or ill-health retirement.

Given that capital charges are unique to smoothed bonus funds, this should always be considered when comparing the costs of smoothed bonus funds to market-linked funds. Not only do Old Mutual smoothed bonus funds give investors exposure to growth assets like alternative assets and thereby aim to achieve returns in excess of inflation over the long term, they also provide investors with the additional benefits of smoothing and guarantees.

GLOBAL AND LOCAL ECONOMIC UPDATE

Johann Els

Old Mutual Investment Group, Chief Economist

GLOBAL ECONOMY: CENTRAL BANKS TAKE A WAIT-AND-SEE APPROACH

During the past quarter, one of the common threads in the global economy was the sustained easing in global financial conditions – thanks largely to the US Federal Reserve Board (Fed)'s so-called "policy pivot", and policy easing in China. The US Fed dropped its tightening bias at its first meeting of the year and increasingly talked about being more patient regarding policy tightening. Worries about slowing growth, subdued inflation, global trade wars and slower global growth conditions played a big role in this shift in thinking.

At its March policy meeting, the US Fed indicated (by way of its so-called dot plot) that the members of the Federal Open Market Committee (FOMC) expect interest rates to remain unchanged throughout 2019. It also announced a tapering of its balance sheet normalisation (meaning that the reversal of quantitative easing, or QE, will be slowed) from May onwards, and that it will be halted by September. This will be an important factor in a better outlook for emerging markets, which have been under pressure while QE has been reversed.

The US Fed's easier policy stance is also promoting a broader easing in global monetary policy. Meanwhile, China has continued on the easing path that was started last year. More policy easing is likely on the way should growth not stabilise and rebound soon.

RATE FREEZE WILL LEAD TO A WEAKER DOLLAR

All of the above has been in line with my base-case view for the world economy: slower, but better balanced and more synchronised growth (that is, slower US growth and better growth elsewhere, including the euro area and China) and a slower interest rate hiking cycle in the US (it now seems as if rates might actually stay flat, or even be lowered). Under these circumstances, the US dollar is likely to weaken. The environment for emerging markets should improve from that of 2018, when the global economy was "unbalanced" (strong US growth and weaker growth elsewhere) and higher US rates led to a strong US dollar.

The biggest risk to this view is probably sustained weak euro-area growth. While the region remained relatively weak during most of the first quarter of this year, recent signals have been slightly more positive, with some of the forward-looking indicators starting to stabilise.

Some recession risk (globally and in the US) remains, but improved conditions have lessened the probability – as most of the potential negatives have eased. Trade talks between the US and China have been ongoing and the latest news suggests that there might be a deal in the offing within the next month or so. Brexit has been an ongoing soap opera, but it seems that there is at least a willingness to try and prevent a no-deal exit.

OUTLOOK FOR THE GLOBAL ECONOMY

I remain of the opinion that recession risk is still low and that growth rotation from the US to elsewhere should mean better balanced and more synchronised growth – albeit at a somewhat slower pace than in 2018. With the US rate hiking cycle seemingly having come to an end, I expect a weaker US dollar during 2019 (this has been the outstanding item in terms of my expectations for the year). The US dollar could potentially weaken towards US$1.25 to US$1.30 per euro by year-end from a level of US$1.12 at the time of writing. This will be a far better environment for emerging markets in general, and South Africa in particular.

SA ECONOMY: WINDS OF CHANGE FAN EMBERS OF OPTIMISM

It has been an eventful start to the year for South Africa. While most attention was focused on issues around economic growth, the annual budget, credit ratings, politics and the upcoming elections, the South African Reserve Bank (SARB)'s policy shift and the inflation rate also played a prominent part in the economic discussion.

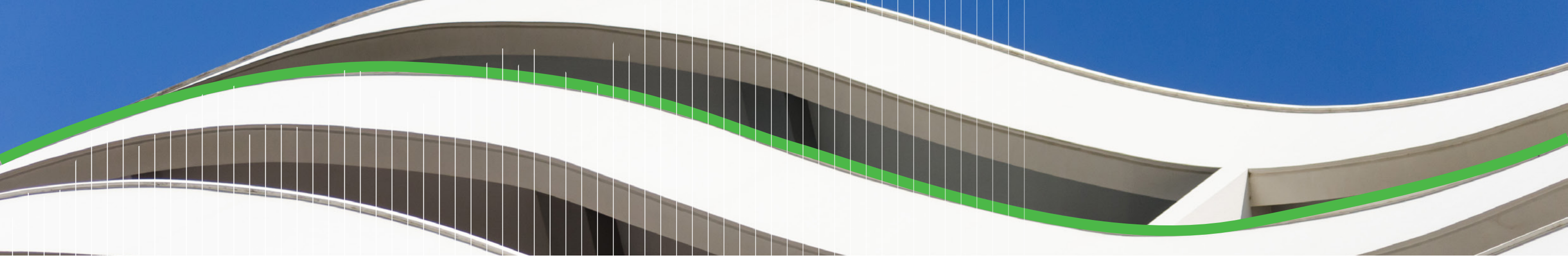
Before I discuss this in a bit more detail, I want to reiterate that I am still convinced that the South Africa of the next few years will likely be a significant improvement on the SA of the past five years. The "winds of change" investment theme is alive and well. While there has been lots of uncertainty, risks and volatility, it is a big part of my job to try to look through the current volatility and uncertainty towards the medium and longer term. I have seen more and more signs of the headwinds that have been holding us back dying down and even turning into tailwinds pushing us forward.

I still expect the election outcome to be conducive to accelerated policy reform, and the resultant return of confidence, and a better outlook for the economy. Combined with the global environment sketched above, this could lead to a substantial strengthening of the rand exchange rate.

Probably the biggest event thus far this year was the annual Budget in February. This was again a disappointment, as the budget deficit ratio, the debt ratio and the expenditure ceiling were all higher than expected. The two main factors behind this were continued slow economic growth and the cost of the Eskom bailout package. While the Budget was disappointing in terms of the numbers, the Eskom support was viewed as positive. President Ramaphosa already announced in the State of the Nation Address that Eskom would be split into separate companies, and the Budget spelled out the financial aid to Eskom. On a positive note, Government will not take on any of Eskom's debt, but will rather give financial support over the next 10 years. Encouragingly, this will partly be financed from cutbacks in public sector wage spending. The appointment of a Chief Reorganisation Officer to oversee Eskom's separation process was also a welcome step.

Economic data at the start of the year was rather weak, confidence remains at dismal levels and the latest forward-looking indicators (the Purchasing Managers' Index and the Reserve Bank's leading indicator index) suggest downside risk. However, a slow cyclical economic recovery should gather some pace after the elections in May. Economic growth could lift somewhat from the 0.7% recorded in 2018 to 1.5% in 2019. The risk here is extended and severe load shedding that could dampen growth.

Despite risk emanating from load shedding, weak growth, the fiscal position and weak state-owned enterprises, ratings agency Moody's kept the outlook on SA's investment grade debt unchanged. In all likelihood, it will reassess the economy and policies after the May elections.

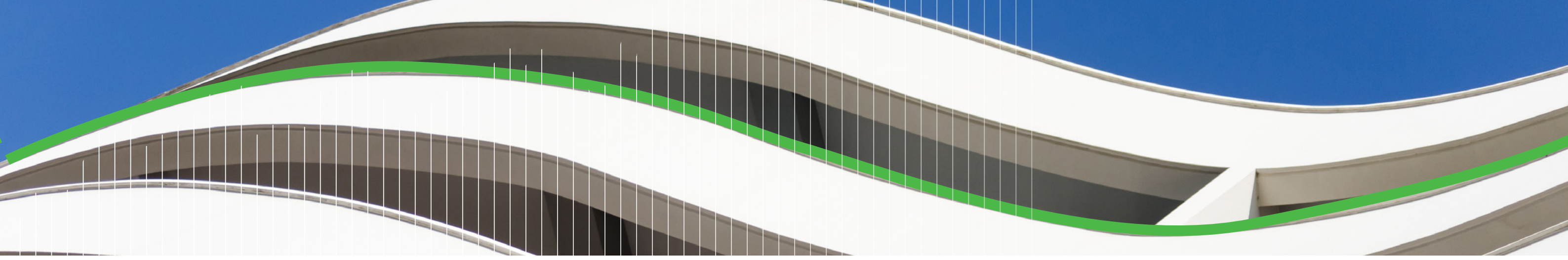


Inflation continued to surprise on the downside over the past several months. From a high of 5.2% year on year in November 2018, inflation reached 4.5% in March this year. While recent cost increases (electricity, petrol etc.) will place upward pressure on inflation, there is very little second-round pressure coming through in this weak economy. I maintain that the current circumstances are very deflationary as there is virtually no room to pass on cost increases to consumers. My inflation forecast for this year (4.4%) is now below last year's average (4.6%). For 2020, I forecast inflation of 4.7%. If this plays out, it would be the lowest three-year average inflation rate in many decades.

In fact, should downside growth risk increase and inflation continue to decelerate, an interest rate cut(s) could come back on the cards. This brings me to the SARB's own policy pivot, which was so much larger than the US Fed's, as discussed above. The SARB has gone from a rate hike in November to a much more dovish stance in the past two policy meetings. To some extent, it was assisted by the Fed's pivot and (late last year/early this year) by a lower oil price, but to a large extent the SARB might have been too focused on potential risks that did not materialise.

OUTLOOK FOR THE SA ECONOMY

A better global environment, including an improved environment for emerging economies, should help SA this year. A good election outcome and improved post-election confidence will also help. I expect growth to slowly gather pace in the second half of the year and inflation to remain subdued. A case could be made for an interest rate cut should growth and inflation continue on the downside. For now, I expect a strong rand later this year and flat interest rates.



UNDERLYING PERFORMANCE AND POSITION

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SMOOTHED BONUS FUND'S UNDERLYING PERFORMANCE & POSITION

In this section we explain the rationale behind the current asset allocation position of the Old Mutual Smoothed Bonus Funds and comment on the underlying performance for the period ending 31 March 2019.

UNDERLYING ASSET ALLOCATION OF OUR SMOOTHED BONUS FUNDS

Each of Old Mutual's Smoothed Bonus Funds has a strategic asset allocation, which is set in order to achieve that portfolio's long-term risk and return objectives. The Absolute Growth Portfolio has the highest allocation to growth assets, and is therefore expected to deliver the highest real return over the long term. Conversely, the CoreGrowth Portfolio has the lowest allocation to growth assets, and is expected to deliver lower, but more stable returns over the long term. The current strategic asset allocations are set out in Table 1 below. The portfolios are required to remain within set ranges around the targeted asset allocation for each asset class.

Table 1

ASSET CLASS	ABSOLUTE GROWTH PORTFOLIO		GUARANTEED FUND		COREGROWTH PORTFOLIO	
	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation	Actual Allocation	Strategic Allocation
Local equities	45.1%	45.0%	37.1%	37.0%	25.6%	25.5%
Local interest-bearing assets	15.0%	13.0%	23.0%	21.0%	34.6%	32.5%
Local alternative assets	5.9%	7.5%	5.9%	7.5%	5.9%	7.5%
Direct property	7.0%	6.5%	7.0%	6.5%	7.0%	6.5%
Global equities	19.7%	20.0%	18.7%	19.0%	17.0%	17.3%
Global interest-bearing assets	2.7%	4.0%	3.7%	5.0%	5.3%	6.8%
Global alternative assets	3.3%	3.0%	3.3%	3.0%	3.3%	3.0%
African listed equities	1.3%	1.0%	1.3%	1.0%	1.3%	1.0%

Old Mutual Investment Group's MacroSolutions boutique manages the underlying portfolios in accordance with their respective long-term strategic asset allocations. MacroSolutions also makes tactical allocations away from the strategic benchmarks in accordance with their asset class views, provided that the portfolios remain within set minimum and maximum asset class ranges.

MacroSolutions' tactical asset allocation calls aggregated to a mildly positive result of 0.1% p.a. over three years. The underweight to global bonds added most value, with good currency trading (buying rand in weakness) and active trading of SA bonds also contributed. Weighing against this was the underweight exposure to alternative asset classes, although it should be noted that the actual return achieved on SA alternatives was significantly behind benchmark. The topping up of SA equity also detracted as the local market faltered through much of 2018.

MARKET INDICATORS

Table 2 below sets out a summary of the index returns to 31 March 2019.

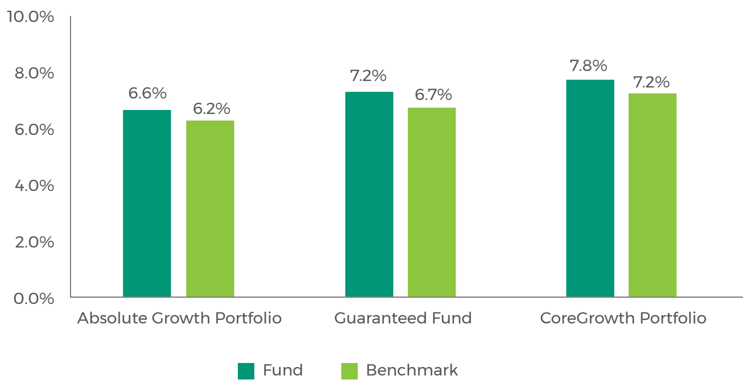
Table 2

	1 YEAR (% P.A.)	2 YEARS (% P.A.)	3 YEARS (% P.A.)	5 YEARS (% P.A.)	7 YEARS (% P.A.)	10 YEARS (% P.A.)
SA EQUITY						
Shareholders Weighted Index	0.4	4.8	3.7	6.2	10.8	14.2
Capped SWIX Index	-2.4	2.6	0.0	0.0	0.0	0.0
All Share Index	5.0	7.3	5.7	6.5	11.0	14.0
Resources Index	41.6	25.1	22.2	0.9	3.2	5.4
Financial Index	-5.8	5.2	2.8	7.6	12.1	15.8
Industrial Index	-3.7	0.9	0.6	6.3	13.0	17.9
Top 40 Index	6.1	8.5	8.5	6.2	11.0	13.7
Mid-cap Index	-3.7	-0.8	-0.8	6.5	9.2	14.8
Small-cap Index	-16.4	-9-9	-2.7	2.6	8.4	12.8
SA PROPERTY						
SA Quoted Property Index	-5.7	-6.4	-3.8	5.6	9.0	12.4
SA INTEREST-BEARING						
ALBI BEASSA	3.5	9.7	10.1	8.3	8.0	8.7
STeFi	7.3	7.4	7.4	7.0	6.5	6.6
Cash	6.5	6.6	6.7	6.2	5.7	5.7
GLOBAL						
MSCI World Index (R)	27.3	13.4	10.6	14.4	20.1	17.8
JPM International Bond (R)	20.5	7.0	0.3	7.5	10.2	6.8
US 1-month LIBOR (R)	24.0	5.2	0.4	7.3	10.1	4.8
INFLATION (ESTIMATE)						
CPI	4.5	4.2	4.8	5.0	5.2	5.2

UNDERLYING ASSET CLASS PERFORMANCE OF OUR SMOOTHED BONUS FUNDS

All of the Smoothed Bonus Funds outperformed their respective benchmarks over the 3-year period. The difference in returns between these funds are primarily due to the different strategic asset allocations adopted by each fund. While the performances of the three funds are expected to diverge over time, there may be some periods where the funds perform similarly relative to each other. The more conservative CoreGrowth portfolio has outperformed the Absolute Growth Portfolio and Guaranteed Fund over the past 3 years, largely as a result of higher exposure to the local bond market and lower exposure to growth assets over the period.

3-YEAR ANNUALISED RETURN

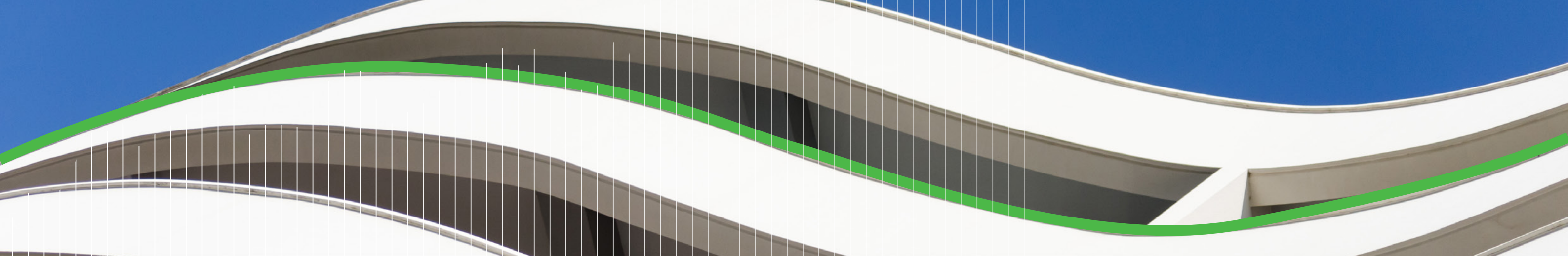


UNDERLYING ASSET CLASS PERFORMANCE

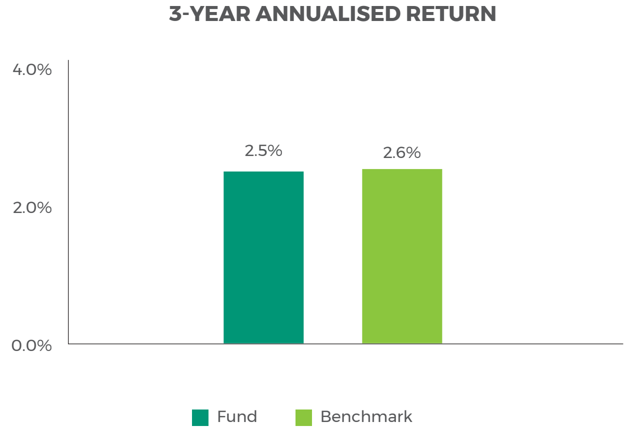
Local Equities

The local equity portfolio consists of a diversified portfolio of South African JSE-listed equities. This portfolio is designed to deliver consistent performance through different market conditions by combining an index tracking portfolio with active management. The active part of the portfolio is split between different investment styles that are expected to complement each other and further diversify the portfolio. While each manager is included in the portfolio based on their individual strengths, the blend of these different managers provides a more consistent investment return than would be possible by investing in a single portfolio or strategy. The portfolio consists of the following:

STRATEGY	PORTFOLIO	FUND %
PASSIVE	Capped-SWIX Tracker	35%
ACTIVE	Old Mutual Equities	35%
	Managed Alpha	14%
	Premium Equity	6%
	Old Mutual Multi-Managers	10%
TOTAL		100%



The portfolio's benchmark is the Capped Shareholder Weighted Index in July 2017. The total performance compared to the benchmark of the portfolio is shown below:



The Total Equity channel is currently underperforming over the 3-year period. This is mainly due to the underperformance of Managed Alpha and Old Mutual Equity (OME).

Old Mutual Equities

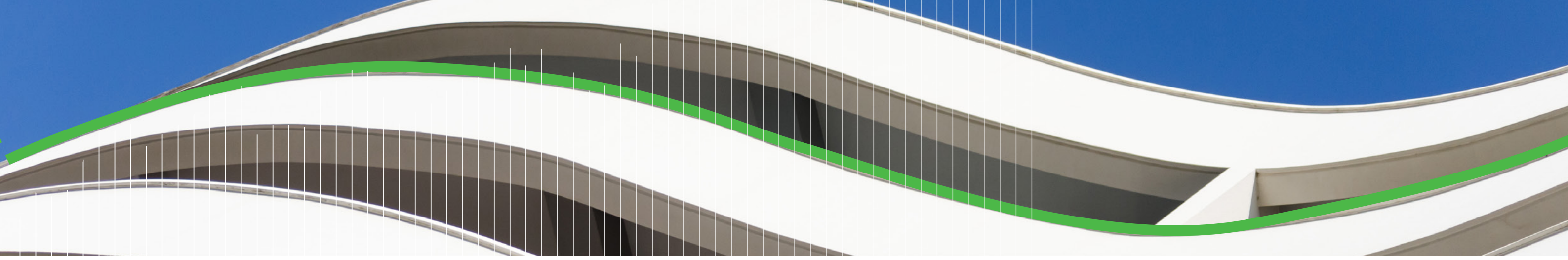
Over the past year OME has outperformed their benchmark by 2.7%, this was as a result of a significant underweight position to MTN and SA consumer shares which contributed positively to the 1-year performance. Holdings in Anglogold, the palladium ETF, and Italtile also contributed positively. Selection within the mining sector (holding Glencore over Anglo American) and being underweight the platinum complex were the most significant detractors over the period.

OME's long-term view of favouring Rand Hedges and Global Cyclicals over SA Inc shares adversely impacted their performance over three years. The large underweight to MTN and overweight positions in Naspers and Absa Group have contributed to performance, whilst their overweight position in Steinhoff was the major detractor.

Managed Alpha

The portfolio had a negative return of -3.46% for the 1 year ending March 2019, while its respective benchmark the Capped Shareholder Weighted Index (Capped Swix) had a negative return of -2.55%, consequently it underperformed the benchmark by 0.91%. It is the stock selection within consumer discretionary and financials segments that led to the performance drag. The fund was on average underweight to the consumer discretionary sector and overweight to the financial sector for the year. At share level Coronation Fund Managers (CML), Astral Foods (ARL) and Impala Platinum Holdings (IMP) were the largest performance detractors.

Over the 3-year period the portfolio had an annualised return of 1.0% p.a. Its benchmark had an annualised return of 2.6%, consequently it underperformed the benchmark by 1.6%. The largest performance detractors were the underweight positions in the communication services and financials sector aided by overweight position in industrial sectors. At share level Coronation Fund Managers (CML), Naspers (NPN) and Capital & Counties (CCO) were the largest performance detractors.



Premium Equity

The fund is ahead of the benchmark by an impressive 5.6% over 1 year and 2.3% over 3 years. The funds option usage produced positive alpha of 3.1% for the year as market volatility levels increased during the major part of 2018. Market conditions have been more suited to the fund with more frequent bouts of increased volatility. The fund equity positioning is generally overweight the large capitalisation stocks and in particular those stocks that have a higher weighting in the TOP40 Index. This allows the fund to effectively manage our benchmark risk when using options.

As equity markets remain very strong, low levels of market volatility continue to persist, thus limiting the alpha generating opportunities for the fund.

Old Mutual Multi-Managers

Old Mutual Multi-Managers (OMMM) marginally outperformed the benchmark by 0.1% p.a. over the 3-year period. The under-performance relative to benchmark was largely attributed to the underperformance of Visio. Visio has been part of the fund over the full 3-year period and underperformed the benchmark by 2.0% p.a. Prudential has contributed positively to performance although it has not been part of the OMMM portfolio for the full 3 years.

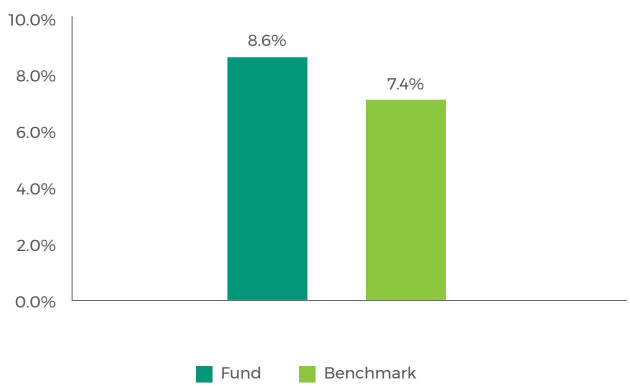
Local Interest-Bearing Assets

The local interest-bearing portfolio consists of bond and money market assets. These assets are managed by OMIG's Futuregrowth fixed-income boutique.

Local Money Market

The money market assets are invested in a yield enhanced money market portfolio. The portfolio aims to generate returns through the active management of short to medium-term interest-bearing instruments. The total performance of the portfolio is shown below:

3-YEAR ANNUALISED RETURN



The portfolio has performed well over 3 years outperforming its benchmark by 1.2%. The fund has maintained positions in 6-12 month instruments (relative to the benchmark) and have benefitted from the attractive yields offered on these instruments. Additionally, the fund has benefitted from holding Treasury Bill instruments that are offering attractive yields particularly for shorter durations.

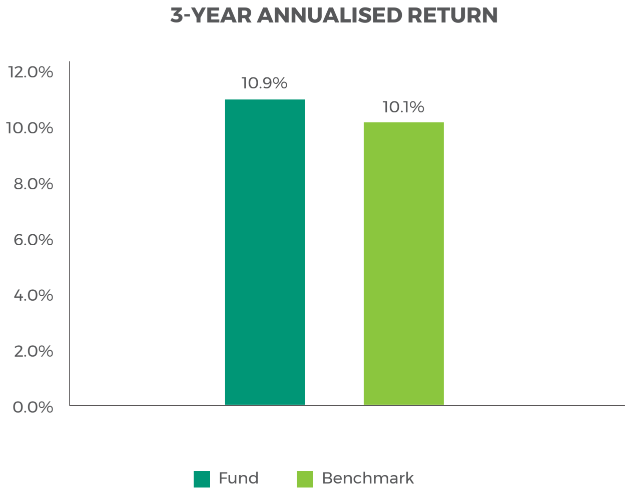
Local Bonds

The bond strategy comprises a combination of a core bond and a yield-enhanced bond portfolio.

The core bond portfolio aims to generate returns primarily through the management of interest rate risk. Futuregrowth aim to implement their views on interest rates across various interest-bearing assets and asset durations. The core bond portfolio also has a small allowance to invest in non-government bonds – which are expected to generate higher investment returns.

In addition to asset allocation and active interest rate management, the yield-enhanced portfolio aims to generate additional returns through the investment in other listed and unlisted credit instruments.

The total bond portfolio performance is shown below:



Core Bond Portfolio

The Core Bond Fund outperformed the benchmark by 0.7% over 1 year and by 0.5% p.a. over 3 years. This was mainly the result of holding higher yielding non-governing bonds. Over 3 years the fund held inflation-linked bonds in anticipation of higher future inflation, which contributed positively to performance.

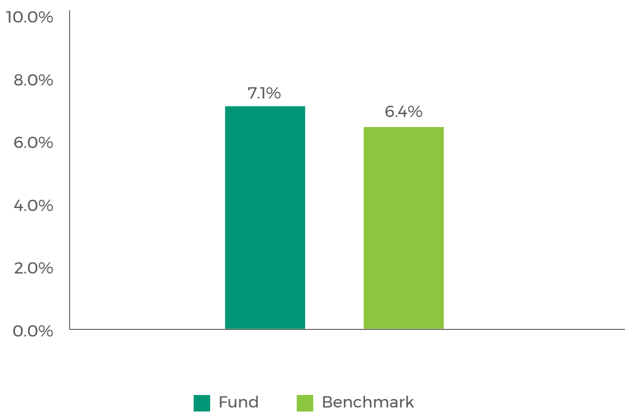
Yield-Enhanced Portfolio

The fund outperformed the benchmark by 1.5% over 1 year and by 1.1% p.a. over 3 years. This was the result of the additional yield offered by the holding of non-government bonds primarily in the form of unlisted assets partly offset by the revaluation of certain unlisted assets which detracted from performance. Over 3 years the fund held inflation-linked bonds in anticipation of higher future inflation, which were sold prior to the significant increase of real yields, and which contributed positively to performance.

Direct Property

The direct property portfolio invests in a diversified range of unlisted properties, with exposure across the retail, office and industrial property sectors. While the majority of the portfolio's assets are located within South Africa, the portfolio has recently started to diversify its exposure into other countries where suitable opportunities exist.

3-YEAR ANNUALISED RETURN



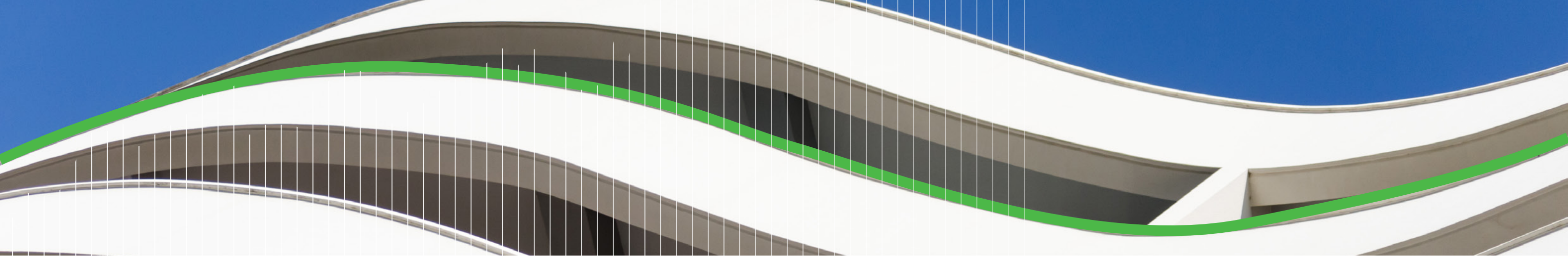
Over the past year, income return is very much in line with budgets, while capital return was negatively impacted by development spend (mainly Gateway & Cavendish) as well as capital projects at other retail centres. We expect the capital return to improve once developments have been completed and fully let.

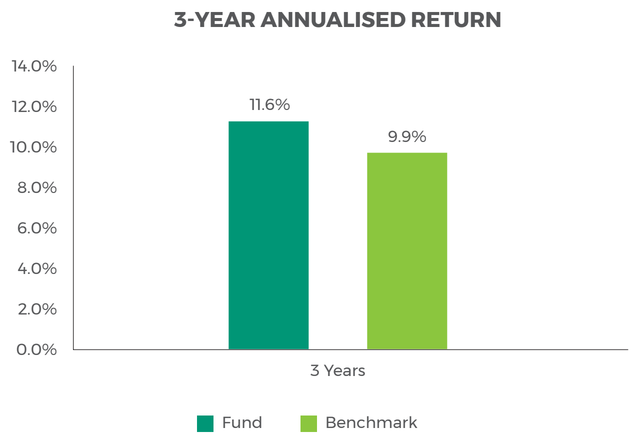
The fund outperformed the rolling 3-year IPD benchmark with a return of 7.1% p.a. versus the benchmark of 6.4%. Properties are continually monitored on an individual property basis and focus on industry benchmarking of operating expenses across all properties, to improve performance.

Global Equities

The Multi-Style equity portfolio is an actively managed portfolio that blends different managers and investment styles in order to target a relatively stable outcome. The majority of the underlying portfolios are managed on a global basis, allowing each manager to invest across both developed and emerging markets.

<table>
<tr><th>FUND MANAGER</th><th>FUND STYLE</th><th>FUND %</th></tr>
<tr><td>Customised Solutions</td><td>MSCI World ESG Tracker</td><td>9%</td></tr>
<tr><td>Global Emerging Markets</td><td>Global Emerging Markets</td><td>1%</td></tr>
<tr><td>Barrow Hanley Mewhinney & Strauss</td><td>Global Value</td><td rowspan="4">80%</td></tr>
<tr><td>Acadian</td><td>Global Quant</td></tr>
<tr><td>Fiera Capital</td><td rowspan="2">Global Growth</td></tr>
<tr><td>Baillie Gifford</td></tr>
<tr><td>MacroSolutions</td><td>Global Macro</td><td>10%</td></tr>
</table>





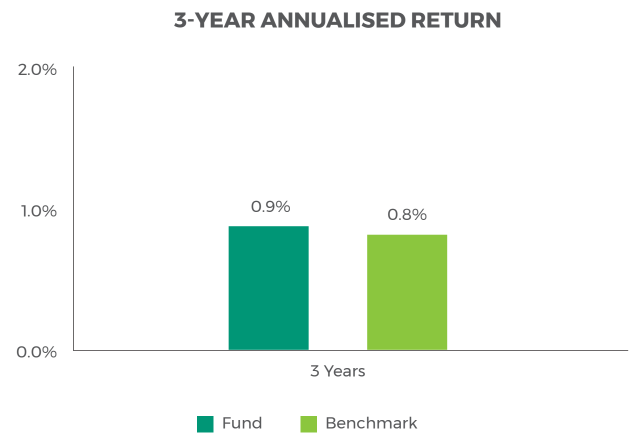
The Global Equity fund outperformed the benchmark by 0.3% gross of fees over the 1-year period. Relative to peers*, the fund was in the top quartile. The Quality portfolio produced the best returns and was largely responsible for this, being true to their defensive characteristics.

Over 3 years, the Global Equity fund outperformed the benchmark significantly by 1.6% p.a. and produced a return of 11.6% p.a. gross of fees. Relative to peers*, the fund was in the top quartile. The Growth and Quality managers produced the best returns, significantly outperforming a growth index that was itself outperforming the broad market.

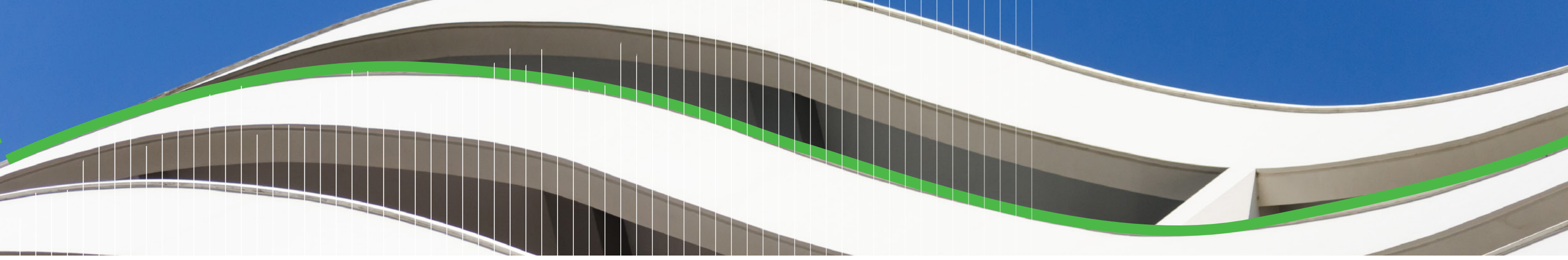
*For peer comparison the Morningstar EAA Large Cap Blended Category is used. EAA refers to Europe, Asia and Africa – the country of domicile for funds. Global Large-Cap Blend Equity funds invest principally in the equities of large-cap companies from around the globe. Equities in the top 70% of the capitalisation of each of the seven regional Morningstar style zones are defined as large-cap (the style zones are Europe, US, Canada, Latin America, Japan, Asia ex-Japan, and Australia/New Zealand). The blend style is assigned to funds where neither growth nor value characteristics predominate.

Global Interest-Bearing Assets

The global interest-bearing portfolio consists of global bond and global cash assets and is currently managed by Allianz.



The Global Bond fund underperformed its benchmark over 1 year by -2.5%, while slightly outperforming over 3 years at 0.1% p.a.



Over the year, developed market government bonds were slightly negative at -1.0% as bond yields around the world rose. Credit returns were slightly positive compared to Government bonds, while Emerging Market bond returns were negative.

Over 3 years, developed market government bonds have provided a 1.2% return with credit returns marginally more. Emerging Market local currency bonds were up 6.8% over this period.

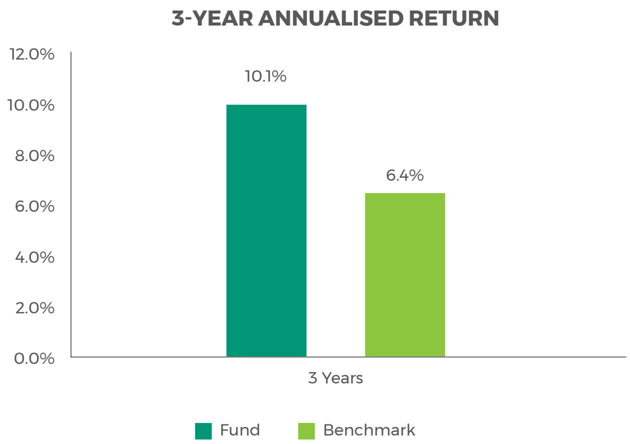
Alternative Assets

The alternative asset portfolio includes:

- Exposure to Private Equity, both within South Africa and globally. Investment into local Private Equity is primarily made via direct investment into local Private Equity funds. Global Private Equity exposure is accessed through investment into fund of funds structures
- Infrastructure investments in commercially viable development projects, both within South Africa and in the rest of Africa. Typical investments include renewable energy projects, toll roads, utilities and airports
- Impact Funds, including local investments in affordable housing and schools, as well as in companies that provide end-user finance to low- to middle-income earners
- Agricultural investments, which consists of agricultural land and associated infrastructure primarily in South Africa, with increasing exposure to the rest of Africa

The local and global alternatives portfolios are managed predominantly by the Old Mutual Alternative Investments (OMAI) boutique, with the exception of the agricultural investments, which are managed by OMIG's Futuregrowth boutique.

Local portfolio



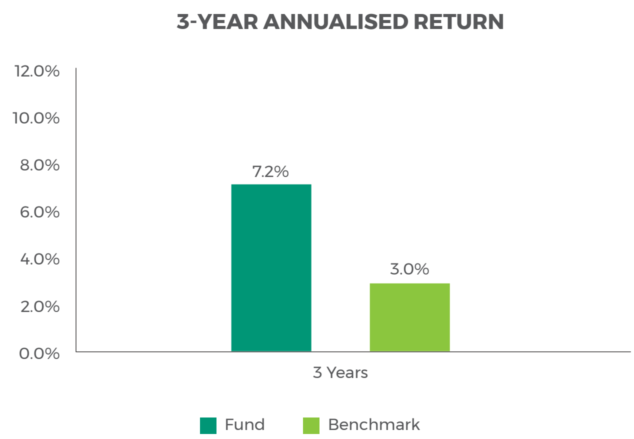
The local alternative portfolio is a high growth portfolio that aims to provide investors with significant real returns over the long-term. The portfolio has a long-term performance target of approximately CPI + 7%. The local portfolio invests in assets that are linked to the local economy, and has consequently struggled to meet this target recently, having performed above inflation over the past 1 and 3 years, but well below its long-term target. Even though recent returns are muted, the portfolio has outperformed the listed equity market by more than 5% p.a. over 3 years, and is expected to deliver on its real return target over the longer term.

The Infrastructure investments have performed well, with the IDEAS Fund having delivered real returns of 11% and 10% over the past 1 and 3 years respectively.

The Impact Fund ("IF") investments have struggled recently, having been significantly impacted by the deteriorating local economic environment. The largest Fund within the IF strategy is the Housing Impact Fund of South Africa (HIFSA) which finances and builds homes, primarily for lower income earners. HIFSA relies on the ability of its target market to afford and get access to finance for the purchase of homes developed by the Fund. The struggling economy has resulted in the IF strategy, and especially HIFSA, underperforming over 1 and 3 years. The IF strategy is a long-term strategy and future returns will depend in large part on the performance of the local economy.

The local Private Equity portfolio has underperformed its investment target over the short and medium term. The underlying businesses held within the Private Equity Funds have been largely affected by the state of the local economy and this had a negative impact on the financial performance of these businesses. OMIG's Private Equity Fund IV is the largest holding within the local Private Equity strategy. Private Equity Fund IV is relatively new and as with most private equity funds, will require additional time to unlock and realise value in the underlying investments, which are typically realised towards the end of life of the Fund.

Global portfolio



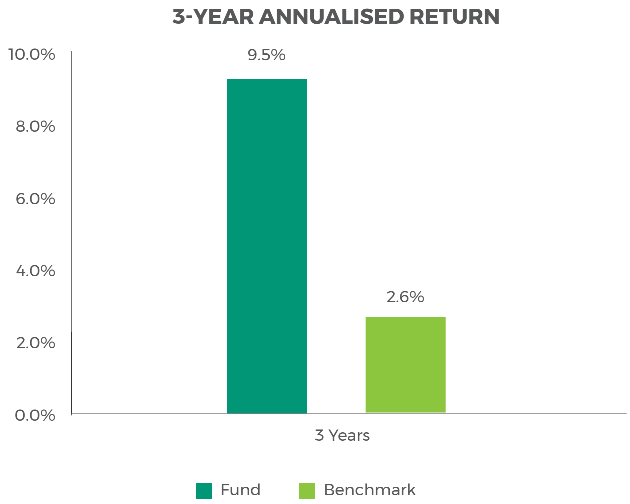
The objective of the global alternatives portfolio is to deliver long-term real returns that significantly exceed US CPI. The portfolio has delivered very strong performance over 1 and 3 years. The Private Equity Fund of Funds, makes up the bulk of the global strategy, has performed well. In addition, the mature infrastructure investments in Africa have outperformed their investment targets.

The Private Equity Fund of Funds ("FoF") strategy currently invests into three FoF portfolios with exposure to global markets, and one FoF portfolio with exposure to Africa. The main sources of excess returns were the outperformance of FoF 1 and FoF 2 relative to their benchmarks. FoF 1 has already paid back the initial investment made through distributions and further value is expected to be realised as the Fund reaches the end of its life. FoF 3 and the Africa FoF are too early into their lifespans to contribute any meaningful impact on performance.

The performance of the global alternatives portfolio demonstrates the benefit of investing in an alternatives portfolio that is diversified across different strategies, countries, currencies and industries, particularly given recent weakness in the local economy.

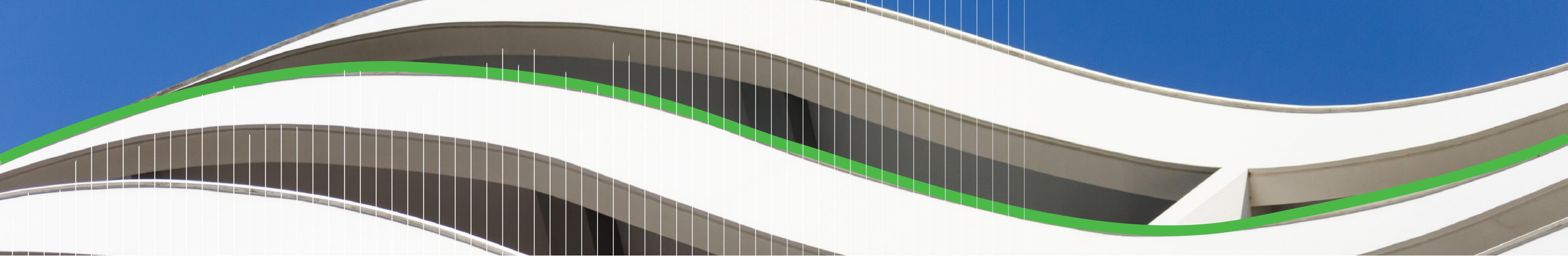
African Listed Equity

The African listed equity portfolio is an actively managed fundamental equity portfolio which aims to outperform its benchmark over the long term. The portfolio is managed by the Old Mutual Equity (OME) boutique within OMIG.



The first quarter of 2019 has seen a reversal of the weakness that was seen in the back half of 2018. With the MSCI Africa excluding South Africa index was up just over 5%. Kenya in particularly has rebounded sharply, up around 20% in Q1 2019.

The fund continues to deliver alpha. The Fund delivered alpha of 5% for the quarter to March 2019, 12% for the last 12 months and 9% p.a. for the last three years. Over the last 12 months, the fund has returned 18% in rand terms, but -2% in USD thus highlighting how weak the rand has been over the period.

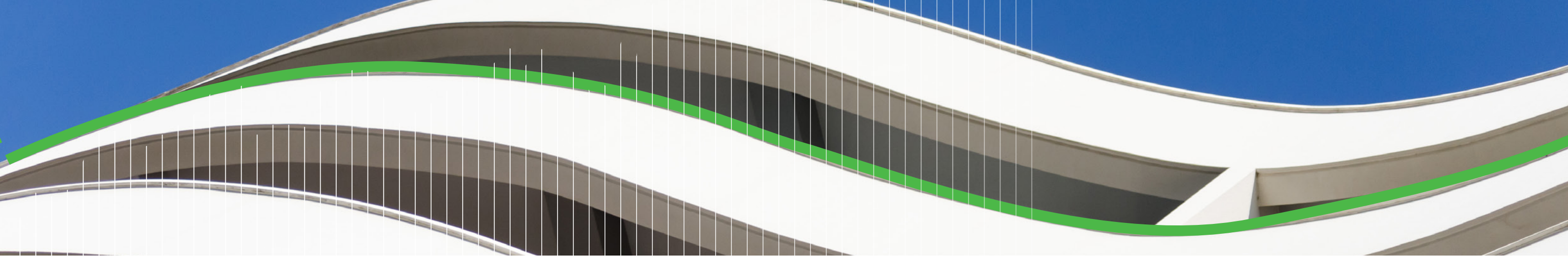


SMOOTHED BONUS PRODUCTS: PERFORMANCE												
Product	**Jan 2019**	**Feb 2019**	**Mar 2019**	**Performance over Periods to 31 March 2019** (Annualised except *)					**Risk Analysis** (Based on 3-year Performance)		**Max Drawdown[1]** (Based on a 3-year Period to March 2019)	**Fund Size**
				Quarter*	**1 year**	**3 years**	**5 years**	**10 years**	**Annualised Volatility**	**Return/ Risk**	**Performance**	**(R million)**
Growth-focused Portfolios												
Absolute Smooth Growth	0.14%	0.29%	0.49%	0.92%	5.57%	7.80%	10.72%	11.07%	0.89%	8.67	0.14%	R51 326
Absolute Smooth Growth 2009 Series[2]	0.14%	0.29%	0.49%	0.92%	5.57%	7.80%	10.72%	N/A	0.89%	8.67	0.14%	
Absolute Stable Growth	0.10%	0.25%	0.45%	0.80%	5.07%	7.29%	10.21%	10.57%	0.89%	8.11	0.10%	R78 292
Absolute Stable Growth 2009 Series[2]	0.10%	0.25%	0.45%	0.80%	5.07%	7.29%	10.21%	N/A	0.89%	8.11	0.10%	
Guaranteed Fund	0.64%	0.64%	0.64%	1.94%	8.99%	10.74%	13.61%	11.96%	0.46%	21.40	0.64%	R4 428
Protection-focused Portfolios												
Absolute Secure Growth	0.05%	0.08%	0.29%	0.42%	3.43%	5.42%	8.26%	8.45%	0.85%	6.75	0.05%	R910
Absolute Secure Growth 2009 Series[2]	0.05%	0.08%	0.29%	0.42%	3.43%	5.42%	8.26%	N/A	0.85%	6.75	0.05%	
CoreGrowth 100	0.40%	0.40%	0.40%	1.20%	7.98%	8.41%	9.75%	9.70%	0.46%	16.80	0.40%	R4 529
CoreGrowth 90	0.48%	0.48%	0.48%	1.45%	9.01%	9.44%	10.80%	10.75%	0.46%	18.80	0.48%	R3 216
Other Indices and Comparative Performance												
Local Equities (JSE ALSI)	2.81%	3.41%	1.56%	7.97%	5.04%	5.68%	6.50%	13.98%	10.98%	0.5	-12.56%	
Local Bonds (BEASSA ALBI)	2.90%	-0.44%	1.33%	3.81%	3.46%	10.11%	8.33%	8.66%	6.83%	1.5	-4.66%	
Local Cash (STeFI)[3]	0.60%	0.55%	0.57%	1.73%	7.22%	7.42%	7.00%	6.60%	0.51%	14.8	N/A	
Rand/Dollar	-7.71%	6.34%	2.89%	0.98%	22.58%	-0.36%	6.59%	4.24%	17.48%	0.0	N/A	
Consumer Price Index (CPI)	-0.18%	0.82%	0.82%	1.46%	4.52%	4.82%	4.95%	5.19%	1.10%	N/A	N/A	
Typical Balanced Fund (Large Global)[4]	Not comparable over the short term					5.67%	7.15%	12.88%	7.12%	0.8	-8.33%	
Typical Balanced Fund (Conservative Global)[5]						6.68%	8.04%	10.57%	4.71%	1.4	-4.17%	

Performance figures are net of capital charges and gross of investment management fees for all products except Guaranteed Fund. The Guaranteed Fund's performance is net of capital charges and asset management charges, gross of investment administration fees.

Notes

[1] Worst cumulative negative performance. Where no negative return exists, it is taken as the lowest positive monthly return.
[2] Uses 2009 Series returns prior to the merger. The 2007 Series and 2009 Series of the Absolute Growth Portfolios merged on 1 May 2012.
[3] Money Market investments are able to achieve very low volatility, but often at the cost of being able to achieve significant real returns over the long term.
[4] Source: Alexander Forbes Manager Watch Survey for Large Global Funds (median).
[5] Source: Alexander Forbes Manager Watch Survey for Conservative Global Funds (median).



SMOOTHED BONUS PRODUCTS: BONUS SMOOTHING RESERVES

Formulaic Smoothed Bonus Products: Quarterly Disclosure

	Jun 2017	Sep 2017	Dec 2017	Mar 2018	Jun 2018	Sep 2018	Dec 2018	Mar 2019
ABSOLUTE GROWTH PORTFOLIOS								
Greater than 25%								
20% to 25%								
15% to 20%								
10% to 15%								
5% to 10%								
0% to 5%								
-5% to 0%								
-10% to -5%								
-15% to -10%								
Less than -15%								

Discretionary Smoothed Bonus Products: Annual Disclosure

	CoreGrowth	Guaranteed Fund
DISCRETIONARY PORTFOLIOS AT 30 JUNE 2018		
Greater than 25%		
20% to 25%		
15% to 20%		
10% to 15%		
5% to 10%		
0% to 5%		
-5% to 0%		
-10% to -5%		
-15% to -10%		
Less than -15%		

SMOOTHED BONUS PRODUCTS: KEY FEATURES

		GROWTH			PROTECTION		COSTS		
		Performance objective	Strategic allocation to growth assets[1] in underlying portfolio	Management style and manager	Protection objective	Guarantee in extreme environments	Capital Charges (per annum)	Investment management fee (per annum)	Inception date
Absolute Growth Portfolios	Smooth	Targets CPI+6% over medium to long term (after guarantee charge)	83%	OMIG Boutiques	Positive bonuses each month	50% of fund credit on claim	0.20%	Investment management fee depends on allocation to local and global assets Local Assets: 0.525% - 0.650% Global Assets: 0.825% - 0.950%	April 2007 (new series launched in April 2009)
	Stable	Targets CPI+5.5% over medium to long term (after guarantee charge)				80% of fund credit on claim	0.70%		
	Secure	Targets CPI+3.5% over medium to long term (after guarantee charge)				100% of fund credit on claim	2.70%		
CoreGrowth Portfolios	100	Return on a conservative to moderate market-linked fund over the long term, less the guarantee charge	61%			100% of fund credit on claim	1.80%	0.23% - 0.50% (depending on fund size)	March 1998
	90					90% of fund credit on claim	0.80%		January 2003
Guaranteed Fund		Return on a broadly balanced market-linked fund over the long term, less the guarantee charge	74%			100% of capital invested and a portion of bonuses declared	0.75%	0.25% - 0.35% (asset management charge depending on asset allocation) plus 0.20% - 0.35% (investment administration fee depending on fund size)	July 1967

[1] Includes equities, properties and alternative assets (including private equity).

CONTACT US

Find out more about the Investment Portfolios in Old Mutual's range of Growth and Protection Solutions. Contact your Old Mutual Corporate Consultant, or broker, or call your nearest Old Mutual Corporate office.

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KwaZulu-Natal:	031 581 0600
Eastern Cape:	041 391 6300
Bloemfontein:	051 430 9787

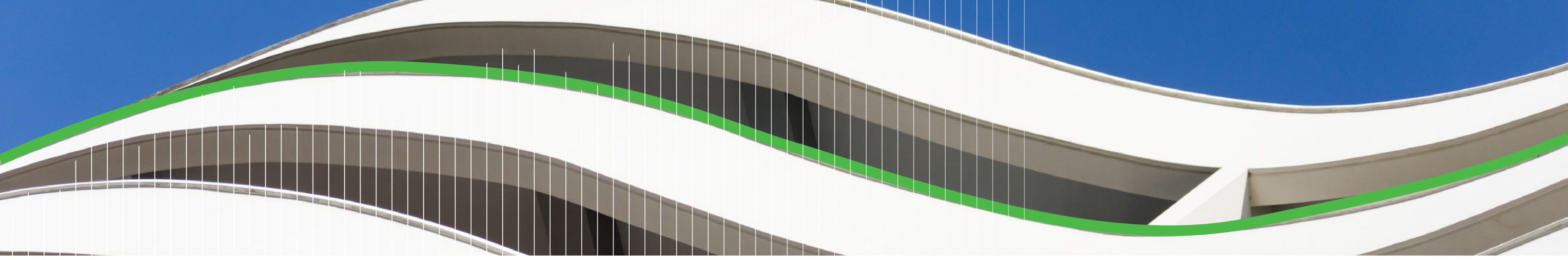
Email: CorporateInvestments@oldmutual.com

Visit the Corporate website: www.oldmutual.co.za/corporate

Note:

This performance report, as well as other information on Old Mutual's Smoothed Bonus Funds, is available on the Old Mutual website: **www.oldmutual.co.za/InvestmentReports**

Queries can be emailed to Old Mutual Corporate (Investment Services) at **CorporateInvestments@oldmutual.com**



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